

Message Text

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ACTION EUR-12

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TO SECSTATE WASHDC 0941
DEPARTMENT TREASURY
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AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 04 BONN 14442

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: ECON EFIN GW
SUBJECT: FINANCIAL DEVELOPMENTS IN GERMANY
(AUGUST 1-7)

REF: BONN 14036, BONN 13947, BONN 13609, BONN 14276

1. SUBJECTS: DOLLAR FALLS BELOW DM 2 ON FOREIGN
EXCHANGE MARKET (TABLE); RECENT GNP GROWTH PROJECTIONS;
TIME TABLE FOR ECONOMIC STIMULATION PROGRAM;
UNEMPLOYMENT UP IN JULY; RESULTS OF KASSEN OBLIGATIONEN
SALE; MONEY MARKET (TABLE); BUNDESBANK FOREIGN POSITION;
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BANK LIQUIDITY; BOND MARKET (TABLE); FOREIGN DM BONDS.

2. DOLLAR FALLS BELOW DM 2 ON FOREIGN EXCHANGE MARKET:

THE DOLLAR CAME UNDER HEAVY PRESSURE ON GERMAN FOREIGN
EXCHANGE MARKETS DURING THE PERIOD UNDER REVIEW, PUSHING
THE GREENBACK BELOW THE \$1 EQUALS DM 2 BARRIER ON

TUESDAY, AUGUST 8. BUNDESBANK INTERVENTION ON FRIDAY AND MONDAY, AMOUNTING TO MORE THAN \$30 MILLION DID NOT HALT THE DEUTSCHEMARK RISE. RUMOURS OF POSSIBLE ACTIONS BY THE SWISS TO CURB THE APPRECIATION OF THE FRANC ARE NOTED BY THE PRESS IN EXPLAINING THE DEUTSCHEMARK STRENGTHENING. FOR THE PERIOD AUGUST 1 THROUGH AUGUST 8, FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

	SPOT DOLLARS			FORWARD DOLLARS	
	(IN DM PER \$1.00)			(IN PCT. PER ANNUM)	
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH
AUG 1	2.0355	2.0347	2.0370	-5.5	-5.1
2	2.0425	2.0459	2.0415	-4.4	-5.1
3	2.0445	2.0335	2.0330	-4.7	-4.8
4	2.0345	2.0285	2.0295	-5.4	-4.9
7	2.0025	2.0124	2.0085	-5.4	-5.0
8	1.9970	1.9890	N.A.	N.A.	N.A.

3. RECENT GNP GROWTH PROJECTIONS:

ACCORDING TO STATE SECRETARY SCHLECHT OF THE ECONOMICS MINISTRY, GNP IN 1978 AS A WHOLE WILL FALL SHORT OF EARLIER PROJECTIONS AND IS NOW ESTIMATED TO SURPASS 1977 LEVELS BY ABOUT 2.5 PERCENT IN REAL TERMS IF THE UNCLASSIFIED

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ECONOMY NOW BEGINS TO GATHER SOME MOMENTUM. SCHLECHT POINTED OUT THAT ACHIEVEMENT OF EVEN THIS MODEST GROWTH WILL REQUIRE ACCELERATION TO AN ANNUAL RATE OF 3.5 TO 4 PERCENT DURING THE SECOND HALF OF THE YEAR. FOR 1979, SCHLECHT HELD OUT PROSPECTS FOR YEAR-OVER-YEAR REAL GROWTH BY 3 TO 4 PERCENT AND A CONCOMITANT SLIGHT BUT UNQUANTIFIABLE IMPROVEMENT OF THE LABOR MARKET SITUATION, ASSUMING STIMULATION IN THE CONTEMPLATED ORDER MAGNITUDE, WAGE RESTRAINT IN RESPONSE

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DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

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TO TAX RELIEF, AND EXPANSION OF WORLD TRADE BY 4 TO 5 PERCENT. ESSENTIALLY COMPARABLE PROJECTIONS HAVE COME FROM TWO IMPORTANT ECONOMIC RESEARCH INSTITUTES. THE HWWA INSTITUTE IN HAMBURG IMPLIED THAT 2.5 PERCENT REAL GROWTH IN 1978 IS PROBABLY THE UPPER LIMIT FOR THIS YEAR AND PLACED GROWTH NEXT YEAR AT ABOUT 3.5 PERCENT. THE IFO INSTITUTE IN MUNICH REPORTEDLY PROJECTED REAL GROWTH BY "LESS THAN 3 PERCENT IN 1978" AND, POSSIBLY, 3.5 TO 4.0 PERCENT IN 1979. NEITHER HWWA NOR IFO EXPECT THE ANTICIPATED MODEST ACCELERATION OF ECONOMIC EXPANSION TO RESULT IN AN APPRECIABLE ALLEVIATION OF UNEMPLOYMENT; BOTH FORESEE A RENEWED QUICKENING OF CONSUMER PRICES, PARTICULARLY SUBSEQUENT TO THE CONTEMPLATED VAT INCREASE.

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4. TIME TABLE FOR ECONOMIC STIMULATION PROGRAM:
DRAFT LEGISLATION DESIGNED TO IMPLEMENT THE GOVERNMENT'S ECONOMIC STIMULATION PROGRAM REPORTED IN BONN 13947 IS SCHEDULED TO BE COMPLETED IN TIME FOR FORMAL CABINET APPROVAL ON AUGUST 30. A SPECIAL BUNDESRAT MEETING TO DISCUSS THE PACKAGE IS TO TAKE PLACE ON SEPTEMBER 22. FIRST READING OF THE DRAFT LEGISLATION IN THE BUNDESTAG IS SLATED FOR EITHER SEPTEMBER 20 OR SEPTEMBER 27. THE GOVERNMENT HOPES THAT LEGISLATORS' DELIBERATIONS WILL

BE COMPLETED IN EARLY NOVEMBER.

5. RESULTS OF KASSEN Obligationen SALE:

THE GOVERNMENT'S TENDER OF KASSEN Obligationen (TREASURY
BILLS) REPORTED IN BONN 14036 BROUGHT IN DM 1.015
BILLION AS FOLLOWS:

- DM 626.6 MILLION IN 3 YEAR, 5 3/4 PERCENT BILLS;
SELLING PRICE 98.90, EFFECTIVE YIELD TO MATURITY;
6.16 PERCENT
- DM 388.3 MILLION IN 4 YEAR, 6.0 PERCENT BILLS;
SELLING PRICE 98.50, EFFECTIVE YIELD TO MATURITY;
6.44 PERCENT.

6. UNEMPLOYMENT UP IN JULY:

UNEMPLOYMENT INCREASED IN JULY. IN NON-SEASONALLY
ADJUSTED TERMS IT WENT UP BY 44,900 TO 922,200 AND
THE UNEMPLOYMENT RATE ADVANCED FROM 3.9 PERCENT IN JUNE
TO 4.1 PERCENT IN JULY. ON A SEASONALLY ADJUSTED BASIS,
UNEMPLOYMENT INCREASED FROM 986,000 OR 4.3 PERCENT IN
JUNE TO 991,000 OR 4.4 PERCENT IN JULY. THIS DEVELOP-
MENT ADDS TO EARLIER EVIDENCE OF A PERSISTENT UNDERLYING
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WEAKNESS SUCH AS THE CONTINUED POOR PERFORMANCE OF NEW
INDUSTRIAL ORDERS AND PRODUCTION REPORTED IN BONN 14276.

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DEPARTMENT TREASURY
INFO AMEMBASSY BERN
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7. MONEY MARKET:

FOLLOWING THE EASING IN CALL MONEY RATES AT THE END OF THE PREVIOUS REPORTING PERIOD (JULY 25-31) CONDITIONS TIGHTENED ONCE AGAIN, DRIVING CALL MONEY RATES UP CLOSE TO THE BUNDESBANK'S 3.5 PERCENT LOMBARD RATE. THIS CHANGE WAS SHORTLIVED HOWEVER, AS AGAIN IN THE CLOSING DAYS OF THE CURRENT PERIOD UNDER REVIEW OVERNIGHT MONEY RATES RETREATED TO ABOUT THE REDISCOUNT RATE LEVEL. JUGGLING OF BANKS' BALANCES HELD AT THE BUNDESBANK FOR MINIMUM RESERVE PURPOSES AND AN OUTFLOW OF FUNDS OF PUBLIC AUTHORITIES FROM BUNDESBANK ACCOUNTS APPARENTLY ARE RESPONSIBLE FOR THE RELATIVELY LARGE SHORT-TERM SWINGS. FOR THE PERIOD, FRANKFURT INTERBANK LENDING
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RATES WERE AS FOLLOWS:

CALL MONEY ONE-MONTH THREE-MONTH

AUGUST 1	3.30-3.50	3.55	3.75
2	3.30-3.50	3.55	3.75
3	3.30-3.50	3.55	3.75
4	3.25-3.40	3.55	3.75
7	2.90-3.10	3.55	3.70

8. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD JULY 24-31, THE BUNDESBANK'S FOREIGN POSITION ROSE DM 0.1 BILLION TO DM 89.2 BILLION. GERMANY'S IMF HOLDINGS FELL DM 55 MILLION AND FOREIGN EXCHANGE HOLDINGS DECLINED DM 96 MILLION. FOREIGN LIABILITIES, HOWEVER, DECLINED DM 250 MILLION.

9. BANK LIQUIDITY:

IN THE SAME PERIOD BANK LIQUIDITY INCREASED BY DM 1.7 BILLION. MAJOR FACTORS REDUCING LIQUIDITY WERE A

DM 3.1 BILLION INCREASE IN BANKS' HOLDINGS OF RESERVES
AT THE BUNDESBANK AND A DM 2.7 BILLION INCREASE IN
CURRENCY IN CIRCULATION. IN ADDITION, PUBLIC
AUTHORITIES OTHER THAN THE FEDERAL AND STATE GOVERNMENTS
INCREASED THEIR ASSET POSITION AT THE BUNDESBANK BY
DM 0.7 BILLION. LIQUIDITY WAS INCREASED BY END-OF-
MONTH PAYMENTS OF FEDERAL AND STATE GOVERNMENTS OF
DM 2.8 AND DM 4.1 BILLION, RESPECTIVELY. THUS, AT
THE END OF JULY FEDERAL ASSETS ON DEPOSIT AT THE
CENTRAL BANK AMOUNTED TO DM 2.5 BILLION AND STATE
GOVERNMENT DEPOSITS TOTALLED DM 3.1 BILLION. OTHER
FACTORS, INCLUDING THE ABOVE-MENTIONED INCREASE IN THE
BUNDESBANK'S FOREIGN POSITION INCREASED LIQUIDITY BY
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DM 1.2 BILLION, NET. BANKS USED THE INCREASE TO
REDUCE LOMBARD BORROWINGS BY DM 0.7 BILLION TO DM 0.8
BILLION AND REDUCED REDISCOUNT BORROWINGS BY DM 0.9
BILLION TO DM 22.1 BILLION.

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DEPARTMENT TREASURY
INFO AMEMBASSY BERN
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10. BOND MARKET:

AS IN THE PAST SEVERAL WEEKS, PRICE DECLINES CONTINUED ON THE DOMESTIC BOND MARKET. BORROWERS ARE REPORTEDLY RELUCTANT TO ENTER THE MARKET IN CONSIDERATION OF THE HIGH INTEREST RATES PREVAILING AND OBSERVERS COMPLAIN THAT THE RECENT BORROWING SCHEDULE OF FEDERAL AND STATE GOVERNMENTS HAS SHOWN A LACK OF SENSITIVITY OF MARKET CONDITIONS. ACCORDING TO THE PRESS, AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY DEVELOPED AS FOLLOWS:

REMAINING MATURITY
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(YEARS)	1	3	5	7	9	10
AUGUST 6	4.60	6.25	6.70	6.85	6.90	7.05
JULY 30	4.55	6.10	6.60	6.80	6.90	7.00

11. FOREIGN DM BONDS:

THE MURATA MANUFACTURING CO. OF JAPAN PLANS A DM 40 MILLION CONVERTIBLE BOND ISSUE WITH A MATURITY OF 8 YEARS. A NOMINAL INTEREST RATE OF 3 1/2 PERCENT AND SELLING PRICE AT PAR ARE EXPECTED. FINAL CONDITIONS WILL BE ANNOUNCED ON AUGUST 11.

THE DM 40 MILLION CONVERTIBLE BOND ISSUE OF KORAKUEN STADIUM LTD., TOKYO (SEE BONN 13609) WILL BE SOLD AT 3 1/2 PERCENT, PRICE 100, MATURITY 8 1/2 YEARS. CONVERSION WILL BECOME POSSIBLE ON SEPT 1, 1978 AT A CONVERSION PRICE OF YEN 480 PER SHARE OF KORAKUEN COMMON. FOR THE MATURITY OF THE BOND A FIXED EXCHANGE RATE OF YEN 97.50 EQUALS DM 1 WILL BE IN FORCE.

THE CHASE MANHATTEN DM 100 MILLION ISSUE (BONN 14036) WAS SOLD AT A PRICE OF 99.0, EFFECTIVE YIELD 6.13. MITSUBISHI PETROCHEMICAL CO. IS PLANNING A DM 65 MILLION BOND ISSUE. THE MITSUBISHI BANK WILL GUARANTEE THE ISSUE WHICH WILL PROBABLY CARRY A 5 1/4 PERCENT COUPON RATE AND A MATURITY OF 5 YEARS.
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